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STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION

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Application for a Certificate of Convenience and Necessity to Provide Resold
Interexchange Service and for Determination that Services of the Applicant are Competitive

2003 AUG 14 A 8:30
AZ CORP COMMISSION
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Applicant: Mercury Long Distance, Inc.
Docket No.: T-04182A-03-0325

On May 21, 2003, Mercury Long Distance, Inc. ("Applicant and/or Company") filed an application for a Certificate of Convenience and Necessity ("CC&N") to provide resold interexchange services within the State of Arizona.

Staff's review of this application addresses the overall fitness of the Applicant to receive a CC&N to provide competitive resold intrastate interexchange telecommunications services. Staff's review considers the Applicant's technical and financial capabilities, and whether the Applicant's proposed rates will be competitive, just, and reasonable.

REVIEW OF APPLICANT INFORMATION

Staff makes the following finding, indicated by an "X," regarding information filed by the Applicant:

- ☒ The necessary information has been filed to process this application, and the Applicant has authority to transact business in the State of Arizona.
- ☒ The Applicant has published legal notice of the application in all counties where service will be provided. On July 22, 2003 Applicant filed an Affidavit of Publication from the Arizona Republic that complies with the Commission's notice requirements.

REVIEW OF TECHNICAL INFORMATION

The Applicant has demonstrated sufficient technical capability to provide the proposed services for the following reasons, which are marked:

- ☐ The Applicant is currently providing service in Arizona.
- ☐ The Applicant is currently providing service in other states.
- ☒ The Applicant is a switchless reseller.

Arizona Corporation Commission

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☒ **In the event the Applicant's network fails, end users can access other interexchange service providers.**

This is a start-up company. The Applicant has five (5) employees with a combined experience of 35 years in the telecommunications service industry. Based on this information, Staff believes the applicant demonstrates sufficient technical capabilities to provide the proposed services.

REVIEW OF FINANCIAL INFORMATION

☐ **The Applicant is required to have a performance bond to provide resold interexchange service in the State of Arizona.**

The Applicant did provide unaudited financial statements of its parent company, GoInternet.Net, Inc. for the twelve (12) months ending December 31, 2002. These financial statements list assets of \$18.8 million; equity of \$1.5 million; and a net income of \$3.3 million. The Applicant did not provide notes related to the financial statements.

The Applicant stated in its Tariff, Section 2.22 on page 16, that it does not collect from its resold interexchange customers an advance, deposit, and/or prepayment. If at some future date, the Applicant wants to collect from its resold interexchange customers an advance, deposit, and/or prepayment, Staff recommends that the Applicant be required to file an application with the Arizona Corporation Commission ("Commission") for Commission approval. Such application must reference the decision in this docket and must explain the applicant's plans for procuring a performance bond.

If this Applicant experiences financial difficulty, there should be minimal impact to the customers of this Applicant because there are many companies that provide resold interexchange telecommunications service or the customers may choose a facilities-based provider. If the customer wants interexchange service from a different provider immediately, that customer is able to dial a 101XXXX access code (dial around). In the longer term, the customer may permanently switch to another company.

The Applicant indicated that none of its officers, directors or partners have been involved in any civil or criminal investigations or formal or informal complaint proceedings before any regulatory or law enforcement agency. The Applicant also indicated that none of its officers, directors or partners have been convicted of any criminal acts in the past ten (10) years.

REVIEW OF PROPOSED TARIFF AND FAIR VALUE DETERMINATION

☒ **The Applicant has filed a proposed tariff with the Commission.**

X

The Applicant has filed sufficient information with the Commission to make a fair value determination.

The rates proposed by this filing are for competitive services. In general, rates for competitive services are not set according to rate of return regulation. Staff obtained information from the company and has determined that its fair value rate base is zero. Accordingly, the company's fair value rate base is too small to be useful in a fair value analysis. In addition, the rates to be ultimately charged by the company will be heavily influenced by the market. Therefore, while Staff considered the fair value rate base information submitted by the Company, it did not accord that information substantial weight in its analysis.

COMPETITIVE SERVICES' RATES AND CHARGES

Competitive Services

The Applicant is a reseller of services it purchases from other telecommunications companies. It is not a monopoly provider of service nor does it control a significant portion of the telecommunications market. The Applicant cannot adversely affect the intrastate interexchange market by restricting output or raising market prices. In addition, the entities from which the Applicant buys bulk services are technically and financially capable of providing alternative services at comparable rates, terms, and conditions. Staff has concluded that the Applicant has no market power and that the reasonableness of its rates will be evaluated in a market with numerous competitors. In light of the competitive market in which the Applicant will be providing its services, Staff believes that the Applicant's proposed tariffs for its competitive services will be just and reasonable.

Effective Rates

The Commission provides pricing flexibility by allowing competitive telecommunication service companies to price their services at or below the maximum rates contained in their tariffs as long as the pricing of those services complies with Arizona Administrative Code ("AAC") R14-2-1109. The Commission's rules require the Applicant to file a tariff for each competitive service that states the maximum rate as well as the effective (actual) price that will be charged for the service. In the event that the Applicant states only one rate in its tariff for a competitive service, Staff recommends that the rate stated be the effective (actual) price to be charged for the service as well as the service's maximum rate. Any changes to the Applicant's effective price for a service must comply with AAC R14-2-1109.

Minimum and Maximum Rates

AAC R14-2-1109 (A) provides that minimum rates for the Applicant's competitive services must not be below the Applicant's total service long run incremental costs of providing the services. The Applicant's maximum rates should be the maximum rates proposed by the Applicant in its most recent tariffs on file with the Commission. Any future changes to the maximum rates in the Applicant's tariffs must comply with AAC R14-2-1110.

STAFF RECOMMENDATIONS

Staff has reviewed the Application for a Certificate of Convenience and Necessity to offer intrastate interexchange services as a reseller and its petition to classify its intrastate interexchange services as competitive. Based on its evaluation of the Applicant's technical and financial capabilities to provide resold intrastate interexchange services, Staff recommends approval of the Application. In addition, Staff further recommends that:

1. The Applicant should be ordered to comply with all Commission rules, orders, and other requirements relevant to the provision of intrastate telecommunications service;
2. The Applicant should be ordered to maintain its accounts and records as required by the Commission;
3. The Applicant should be ordered to file with the Commission all financial and other reports that the Commission may require, and in a form and at such times as the Commission may designate;
4. The Applicant should be ordered to maintain on file with the Commission all current tariffs and rates, and any service standards that the Commission may require;
5. The Applicant should be ordered to comply with the Commission's rules and modify its tariffs to conform to these rules if it is determined that there is a conflict between the Applicant's tariffs and the Commission's rules;
6. The Applicant should be ordered to cooperate with Commission investigations including, but limited to customer complaints;
7. The Applicant should be ordered to participate in and contribute to a universal service fund, as required by the Commission;
8. The Applicant should be ordered to notify the Commission immediately upon changes to the Applicant's address or telephone number;
9. If at some future date, the Applicant wants to collect from its resold interexchange customers an advance, deposit, and/or prepayment, Staff recommends that the Applicant be required to file an application with the Arizona Corporation Commission ("Commission") for Commission approval. Such application must reference the decision in this docket and must explain the applicant's plans for procuring a performance bond;
10. The Applicant's intrastate interexchange service offerings should be classified as competitive pursuant to AAC R14-2-1108;
11. The maximum rates for these services should be the maximum rates proposed by the Applicant in its proposed tariffs. The minimum rates for the Applicant's competitive services should be the


Applicant's total service long run incremental costs of providing those services as set forth in AAC R14-2-1109;

12. In the event that the Applicant states only one rate in its proposed tariff for a competitive service, the rate stated should be the effective (actual) price to be charged for the service as well as the service's maximum rate;
13. The rates proposed by this filing are for competitive services. In general, rates for competitive services are not set according to rate of return regulation. Staff obtained information from the company and has determined that its fair value rate base is zero. Accordingly, the company's fair value rate base is too small to be useful in a fair value analysis. In addition, the rate to be ultimately charged by the company will be heavily influenced by the market. Therefore, while Staff considered the fair value rate base information submitted by the company, the fair value information provided should not be given substantial weight in this analysis.

Staff recommends that the Applicant be ordered to comply with the following. If it does not do so, the Applicant's CC&N shall be null and void without further order of the Commission and no time extensions shall be granted.

1. The Applicant shall file conforming tariffs within 365 days from the date of an Order in this matter or 30 days prior to providing service, which ever comes first, and in accordance with the Decision;

This application may be approved without a hearing pursuant to A.R.S. § 40-282.


Ernest G. Johnson
Director
Utilities Division

Date: 8-13-03

Originator: Adam Lebrecht

SERVICE LIST FOR: MERCURY LONG DISTANCE, INC.
DOCKET NO. T-04182A-03-0325

Wendy Bouza
Telecom Certification and Filing, Inc.
485 Madison Avenue
New York, New York 1022-5803

Mr. Ernest G. Johnson
Arizona Corporation Commission
Utilities Division
1200 West Washington
Phoenix, Arizona 85007

Mr. Christopher C. Kempley
Arizona Corporation Commission
Legal Division
1200 West Washington
Phoenix, Arizona 85007

Ms. Lyn Farmer
Chief Administrative Law Judge
Arizona Corporation Commission
Hearing Division
1200 West Washington
Phoenix, Arizona 85007